

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

This Management's Discussion and Analysis ("MD&A"), prepared as of March 29, 2012, should be read in conjunction with the unaudited condensed interim financial statements of Canada Energy Partners Inc. (the "Company") for the three and nine months ended January 31, 2012, and related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). Previously, the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("CAGAAP"). The Company's fiscal 2011 comparatives in this MD&A have been presented in accordance with IFRS. As the Company's IFRS transition date was May 1, 2010, any fiscal 2010 comparative information included in this MD&A has not been restated. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All figures are stated in Canadian dollars unless otherwise indicated.

Additional information related to the Company can be found on SEDAR at www.sedar.com or on the Company's website at www.canadaenergypartners.com.

Company Overview

Canada Energy is an independent natural gas exploration and development company primarily focused on unconventional resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, and became a publicly listed entity under symbol "CE" on the TSX Venture Exchange on November 22, 2006. The Company was formed for the purpose of acquiring interests in the Peace River Coalbed Methane ("CBM") Project and became an active explorer in northeast British Columbia.

Canada Energy has accumulated 107 gross sections or approximately 67,918 gross acres of drilling licenses in northeast British Columbia. The Company has three project areas: Peace River, Monias, and Moberly. Canada Energy's current focus is the development of the Montney formation on its Peace River Project with its joint venture partner Crew Energy Inc. ("Crew").

Significant Events

During the three and nine months ended January 31, 2012, and up to the date of this report, there was no activity on the Company's lands. However, adjacent operators reported results confirming the merits of the Montney proximal to the Company's lands.

Proximal to the Company's Peace River lands, Talisman revealed at its Investor Day that it plans to spend \$800 million in 2011 and a total of \$1.6 billion on the Farrell Creek Project over the next two-three years. Performance based evaluation of their initial wells indicates the Farrell wells should recover 7 BCF/well with average initial potentials of 6 million cubic feet per day. Talisman estimates potentially recoverable gas at 116 BCF per section with the PV10% breakeven estimated to be at \$3-3.50/mcf gas prices. Talisman has been running 10 drilling rigs on the Farrell Project, but recently reduced that to four rigs in response to weak gas prices. Their mid-stream expansions include cryogenic natural gas liquids recovery equipment as the eastern portions of the Farrell Project have recoverable liquids. The Company believes that a significant portion of its Peace River lands are on thermal strike with Talisman's eastern acreage and, hence, may also have commercially recoverable liquids.

Proximal to the Company's Monias land, Shell Canada ("Shell") released the test results on three additional horizontal Montney wells drilled to within 150m-600m of the Company's lease line at Monias. The A4 well had a final flowrate of 8.1 million cubic feet per day, with a peak flowrate during the test of 21 million cubic feet. The B4 well had final and peak rates of 6 and 10.4 million cubic feet per day respectively. The C4 well had final and peak rates of 6.3 and 17.1 million cubic feet per day respectively. These wells had horizontal lateral lengths of 1876-2269m and were fractured with 9, 10, and 11 stages respectively. The Company had previously reported (see March 4th news release) results on Shell's D4 and E4 wells which had final/peak flowrates respectively of 7.1/10.5 and 6.5/9.4 million cubic feet per day. Shell's gas analyses have not been released yet, therefore the liquid yield is unknown; however core data in their vertical pilot well had indications of liquids in the Montney. Log evaluation of the Shell wells evidence extraordinary reservoir quality

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

in the Upper Montney relative to the Heritage/Groudbirch/Septimus/Monias area and these well tests corroborate that log evidence.

Based upon these additional Shell tests, GLJ increased its proved and probable reserves from 17 billion cubic feet net to the Company at year-end 2010 to 21.3 billion cubic feet equivalent as of April 30, 2011 on just one (1) net section of the Company's Monias property and 26.22 billion cubic feet equivalent for the Company total at Monias and Peace River.

The Company owns 100% of three (3) sections adjacent to the Shell property and a total of five net sections within the Monias block.

Outlook

The Company believes that the initial drilling program conducted by the Operator has confirmed a large in-place gas resource at Peace River and has significantly de-risked the play. The Company owns a 50% working interest in the Peace River CBM gas plant which can be adapted to Montney production with minor modifications. In 2011 and 2012, the Company will work on the engineering and feasibility of connecting the two Montney wells on Peace River Project to the gas plant as well as further development of its Monias property exploration. The Company is evaluating several horizontal drilling and completion techniques which have the potential of enhancing the economic profile of the CBM resource. The Company anticipates reactivating several of the CBM wells if and when the Montney wells are connected to the Peace River gas plant; but this will be subject to acceptable financing and gas prices. We will continue to seek additional exploration and acquisition opportunities in northeast BC.

The Company will have to recapitalize its balance sheet in order to finance the development of its properties. The Company will pursue this goal by seeking one or more of the following: a farmout, a joint venture, a partial asset sale, a merger, project finance or the issuance of additional equity.

The Company is well positioned with staying power, having no effective debt, a positive cash balance, and long tenures on its leases. The Company has no firm work obligations to maintain its leases until 2014. The Company believes that gas prices will strengthen in the intermediate term and, because of its unleveraged balance sheet, long lease terms, and lack of pressing capital expenditure obligations, can be patient in its effort to maximize shareholder value.

Projects Overview

Joint Venture with Crew Energy Inc.

In March 2008, the Company entered into a joint venture agreement with Crew Energy Inc. (TSX: CR; "Crew Energy" or "JV Partner") to explore the Montney/Doig Formation on Canada Energy's Peace River and Moberly prospects in northeast British Columbia. Crew Energy operates the project and has earned a 50% working interest in the subject lands. Crew has experienced significant success in the Montney formation in northeast British Columbia in their Septimus Project east of Peace River project, having tested the Montney at rates up to 17.6 MMCF/D. Canada Energy believes that Crew brings strategic expertise in the Montney to the Joint Venture.

Peace River Project

Crew has completed a 28.5 square mile three-dimensional seismic survey of the Peace River Project in 2008. One Montney well was drilled, cased, and tested in two zones during 2008-09 and is shut-in pending completion. Several prospective deep formations, including the Montney, have been identified in this well and on the three-dimensional seismic survey. Under the Joint Venture Agreement, the JV Partner has drilled and tested two horizontal wells: Portage c-20-E and Portage 3-12-82-26. Both wells are shut-in pending pipeline connections.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Portage c-20-E

The c-20-E was drilled in the first quarter of 2010 and initially completed in June 2010, testing between 1.7 and 2.7 million cubic feet per day during a ten day test. The lateral length was 1,000 meters and was fraced with four stages. This is approximately half the length and half the sand placement of a typical development well in the area. The Company elected to re-test the c-20-E well based on evidence from U.S. shale basins that an extended shut-in period after initial completion can result in improved performance. The initial re-test of the Portage c-20-E was prematurely terminated due to safety concerns due to potential metal fatigue associated with the significant pressure drop at surface and extreme cooling. Subsequently, the necessary heating equipment was installed to allow testing of the well to continue with regard to safety. The well was re-opened for a two day flow period, during which the peak flow-rate was 9.7 million cubic feet per day. A stabilized flow rate of 4.4 million cubic feet per day was experienced at the end of the test, with the well performing at an average rate of 6.6 million cubic feet per day for the final two day period. The c-20-E re-test results of 1,100 mcf/d per frac treatment compares very favorably with the Talisman completions on their Farrell Project 5 miles to the north where the fracture treatments from the Upper Montney have averaged 540 mcf/d per fracture treatment.

Portage 3-12-82-26

The Operator performed a 5-stage fracture treatment comprised of 25 perforated intervals over the 1,826m lateral and placement of 1,500 tonnes of sand. This is 2.2 times the volume of sand and 2.2 times the perforated intervals as were conducted on the first horizontal well at Peace River, the c-20-E. The Operator reduced the number of frac stages from the original design by expanding the treated interval per frac stage. Over a 16 day flow test period, the well had a peak flow-rate of 4.5 million cubic feet per day and an end rate of 1.2 million cubic feet per day. The Company believes that this end rate was adversely affected by persistent water and sand production and that improved long-term performance is possible.

Due to the difference in results at c-20-E over time, the well was re-tested in March 2011 for 48 hours yielding a peak rate of 10 million cubic feet per day ("mmcf/d"), an average rate over the test period of 4.8 mmcf/d and a stabilized end rate of 2.4 mmcf/d. The Portage 3-12 was re-tested as follow-up to the successful re-test of the Portage c-20-E, as announced by the Company on December 13, 2010. These two re-tests appear to confirm the benefits of 'resting' a well for an extended period after initial completion, after which flow capacity improves.

The Company owns an interest in the Peace River CBM gas plant which can be adapted to Montney production with minor modifications. It is also notable that there remain three untested formations (Doig Siltstone, Doig Phosphate, and Lower Montney) that have been deemed commercial by adjacent operators in the area with large confirmed in-place gas resources.

Area Activity

Talisman Energy Inc. continues to be very active in Montney exploration on their Farrell Project, which is on tectonic and depositional strike with (and immediately north of) the Company's Peace River Project. They have stated publicly that they expect to spend \$7.5 billion in Montney exploration and development over the next ten years. They executed a \$300 million capex development program in 2010 and are currently executing an \$800 million development program for 2011. They currently have four drilling rigs operating in the Farrell field.

On December 20, 2010, Talisman announced that it had paired with South African energy and mining giant Sasol Ltd. in a \$1.05-billion development agreement for its Farrell Project. Talisman announced that the play has been largely de-risked and production at Farrell Creek is expected to exit this year at between 40-60 mmcf/d. Talisman's processing facilities at Farrell Creek have been expanded to 120 mmcf/d and the company has secured over 500 mmcf/d of egress capacity from the region. As part of the agreement, the partners have agreed to conduct a feasibility study around the economic viability of a facility in western Canada to convert natural gas to liquid fuels, using Sasol's commercial Gas to Liquids (GTL) technology. This could provide a strategic alternative to traditional North American pipeline or LNG marketing. The outlook for GTL could be very positive if North American natural gas prices continue to decouple from oil prices. The GTL process produces premium, clean liquids fuels.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

On March 8, 2011, Talisman announced a second \$1.05 billion joint venture with Sasol in its Montney properties and that they would apply a significant portion of that joint venture's funds to the Farrell Project. Embedded in these announcements was Talisman's assessment of 116 BCF per section of potentially recoverable gas (7 BCF per well EUR) from the four Triassic shale formations that have been deemed commercial by Talisman.

Canbriam Energy is also active immediately north of the Company's Peace River Project having drilled 3 vertical Montney wells and four horizontal wells. Notably, they have announced excellent results in the Lower Montney of 1 million cubic feet per frac stage. Canbriam has recently announced a Lower Montney test at Farrell of 1 million cubic feet per day per frac stage, with 8 frac stages conducted. Most recently, Canadian Spirit/Canbriam announced that they had put the c-B18-I well on production at 5 million cubic feet per day.

Moberly Prospect

Crew drilled an initial well on the Moberly Prospect in early 2009. Several prospective deep formations including the Montney have been identified in this well. Casing has been set on the initial well and the well is shut-in pending completion testing.

Aduro drilled a vertical Montney test well one quarter mile east of the Company's Moberly block in Q3 2010 and ran casing on it. The well tested gas from the Belloy formation and is shut-in pending pipeline connection.

Joint Venture with GeoMet Inc.

Canada Energy is also developing the Peace River CBM Project with Hudson's Hope Gas Ltd., a subsidiary of GeoMet Inc. (NASDAQ: GMET). The 2008 Development Program included the drilling and completion of five (5) new production wells, the connection of three existing wells, construction and installation of gas treating and compression facilities, and a pipeline and connection to Spectra's (formerly Duke Energy's) transcontinental pipeline. Initial dewatering of the eight connected wells began in calendar Q3 & Q4 of 2008. The gas plant/compressor station, pipeline connection, and gathering system were completed in December 2008, and production and gas sales began in January, 2009. In April 2010, the eight producing CBM wells were shut-in.

The decision to shut the wells in was based upon continued monthly operating losses due to low gas prices and a longer than expected dewatering time to obtain gas production rates necessary to generate a positive cash flow. The Company continues to believe that the CBM Project has commercial potential and has put the Project on care and maintenance. The shut-in wells can be restarted in the future upon improvement in the gas prices and/or when the Montney wells are producing through the gas plant, thereby reducing the gas plant costs per well.

The Company has an on-going investigation into innovative horizontal drilling and completion which may lead to improved flowrates and reduced costs.

Joint Venture with Daylight Energy Ltd. (formerly West Energy Ltd.)

On April 1, 2008, the Company announced a joint venture with West Energy Ltd. (TSX:WTL) ("West") on the deep rights of the Company's Monias Prospect. The Company retained all shallow rights to the base of the Nikanassin formation.

Pursuant to the terms of the Agreement, West agreed to conduct an exploration program, the primary purpose of which is to test the potential of the Montney formation. According to the joint venture agreement, West operated the project. The initial program consisted of a three-dimensional seismic project over the majority of the Monias Prospect lands. West drilled and cased one well on the Monias Prospect. The Company had a legal dispute with West as to whether or not West has earned an interest in four sections. Daylight Energy Ltd. ("Daylight") bought West Energy in Q2 2010 and Daylight in turn was acquired by Sinopec in December 2011.

During the year ended April 30, 2011, the Company and Daylight mutually settled the legal dispute over the Seismic Option Agreement on the Company's Monias Prospect. Under the terms of the settlement, Daylight is deemed to have

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

earned a 60% working interest in four sections and the 13-30-81-21 wellbore with the Company retaining a 40% working interest in these four sections and wellbore. Daylight will have no further earning rights in the Monias Prospect and the Company will retain a 100% interest in three remaining sections in the Monias Prospect. The Company also preserved a 35% interest in the eighth section at Monias, which was at risk of expiring, in a license grouping arrangement with Terra Energy.

Area Activity

The Company owns 5 net sections at Monias, three of which are owned 100% and are adjacent to the Shell acreage. Shell drilled a very successful vertical Montney test 1.5 miles from the Company's lease line in Q4 2009. Logs and cores on the 4-11 showed extraordinary reservoir thickness and quality. In the summer-fall 2010, Shell followed up the 4-11 with five horizontal wells drilled to within 150m - 800m of Canada Energy's lease line. Completion operations were performed on the wells in late 2010 and early 2011. The five wells were tested at restricted rates of between 6.0 and 8.1 mmcf/d. The Company has permitted a drilling location directly offsetting the Shell wells.

Aduro Resources Ltd. drilled a Montney test well 2 miles northeast of the Company's Monias block in the first quarter of 2012. The well was drilled vertically through the Montney section and intermediate casing was set in anticipation of a horizontal sidetrack when market conditions improve.

Over the last 30 months, the Company is aware of eight large Montney land transactions in the vicinity of the Company's land positions with approximately \$10 billion of cumulative value (see table below). By the Company's calculation, the weighted average value of these transactions is \$13,581 per acre, as compared to the Company's Montney lands being valued by the stock market at approximately \$411 per acre at the current trading value of the Company's common shares.

Recent Montney Area Transactions

Transactions	Area	Date	Total Value (\$MM)	Estimated Undeveloped Land Value (\$/ac)
Crown Land Sale	Altares	Oct 2009	\$ 275	\$ 5,500
**Penngrowth- Monterey	Groundbirch	July 2010	\$ 366	\$ 5,000
**Talisman-Sasol (1)	Altares	Dec 2010	\$ 1,050	\$ 29,700
Talisman-Sasol (2)	Cypress	March 2011	\$ 1,050	\$ 32,000
Progress-Petronas(3)	Altares-Lily-Kahta	June 2011	\$ 1,070	\$ 14,720
**Daylight-Sinopec	Various + Monias	Oct 2011	\$ 2,200	Inadequate data
Encana-Mitsubishi(4)	Cutbank Ridge	Feb 2012	\$ 2,900	\$ 17,726
**Shell - PetroChina	Groundbirch	Feb 2012	\$ 1,050	Inadequate data
Total (\$MM) =			\$ 9,961	
Weighted Average Price Per Acre =				\$ 13,581

** Within or adjacent to CE land positions.

(1) Average price per BMO, CIBC, and Dundee

(2) CIBC evaluation

(3) PLS Canadian Acquirer 6-17-11 evaluation

(4) CIBC evaluation

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Reserves

The Company's Statement of Reserves Data and Other Oil and Gas Information is filed on the Sedar website at www.sedar.com.

Selected Summary Financial Information

The following table provides a brief summary of the Company's financial operations for the nine months ended January 31, 2012 and for the two fiscal years ended April 30, 2011 and 2010. The information has been prepared in accordance with IFRS, except fiscal 2010 figures which are presented in accordance with CAGAAP. For more detailed information, refer to the related financial statements.

	January 31, 2012	April, 30, 2011	April 30, 2010
	\$	\$	\$ (1)
Total assets	76,338,657	78,588,604	79,623,354
Oil and gas interests	75,158,522	74,916,054	72,182,299
Total current liabilities	(90,925)	(1,492,799)	(1,517,381)
Total long-term liabilities (2)	(613,533)	(597,012)	(547,311)
Net loss and comprehensive loss for the period	(372,087)	(3,799,089)	(703,517)
Basic and diluted loss per share	(0.01)	(0.05)	(0.01)
Cash dividends	-	-	-

(1) Presented in accordance with CAGAAP

(2) Long term liabilities consist of asset retirement obligations.

Summary of Financial Results

Three months ended January 31, 2012 compared to the three months ended January 31, 2011

During the three months ended January 31, 2012, the Company incurred \$265,213 (2011 - \$4,030,146) of general and administrative expenses. Significant expenditures were incurred in the following categories:

- Administrative and management fees of \$183,008 (2011 - \$131,869) increase and were mainly in connection with the Company's Vancouver head office \$66,000 (2011 - \$72,225) and Baton Rouge operational office \$66,208 (2010 - \$65,344). Please see additional discussion in the Related Party Transactions section;
- Audit and accounting of \$(26,507) (2011- 15,700) includes audits, IFRS conversion and tax related fees;
- Rent of \$10,614 (2011 - \$15,580) includes rent for the Company's offices in Vancouver of \$4,026 (2011 - \$13,566) and Baton Rouge of \$6,588 (2011 - \$6,309).
- During the three months ended January 31, 2012, the Company recorded a gain of \$3,593 (2010 - \$nil) related to the deposition of its asset-backed commercial paper investment.

Summary of Financial Results

Nine months ended January 31, 2012 compared to the nine months ended January 31, 2011

During the nine months ended January 31, 2012, the Company incurred \$789,492 (2011 - \$4,646,762) of general and administrative expenses. Significant expenditures were incurred in the following categories:

- No share based compensation expenses was recorded during the nine months ended January 31, 2012 as compared \$3,723,465 recorded in the same period in 2011;
- Administrative and management fees of \$372,087 (2011 - \$364,054) decreased and were mainly in connection with the Company's Vancouver head office \$195,300 (2011 - \$216,475) and Baton Rouge operational office \$215,860 (2011 - \$165,273). Please see additional discussion in the Related Party Transactions section;

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

- Audit and accounting of \$46,085 (2011 - 56,486) includes audits, IFRS conversion and tax related fees;
- Rent of \$39,397 (2011 - \$36,199) includes rent for the Company's offices in Vancouver of \$18,036 (2011 - \$40,745), Baton Rouge of \$21,361 (2011 - \$19,918) and Dallas of \$nil (2011 - \$817); and
- During the nine months ended January 31, 2012, the Company recorded a loss of \$91,591 (2011 - \$nil) related to the fair value adjustment of its asset-backed commercial paper investment.
- During the nine months ended January 31, 2012, the Company recorded a gain of \$3,593 (2011 - \$nil) related to the deposition of its asset-backed commercial paper investment.

During the nine months ended January 31, 2012, the Company capitalized \$210,847 (2011 - \$2,793,402) on the Peace River Project, \$23,045 (2011 - \$208,398) on the Monias Prospect, and \$8,576 (2011 - \$3,964) on the Moberly Prospect. There were no properties written off during the nine months ended January 31, 2012 or in prior periods.

Summary of Selected Quarterly Results

The following is a summary of the Company's selected financial results for the eight most recently completed quarters. The information has been prepared in accordance with IFRS, except fiscal 2010 figures which are presented in accordance with CAGAAP:

	Fiscal 2012			Fiscal 2011				Fiscal 2010 (1)
	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$
Total assets	76,338,657	77,952,599	78,289,326	78,588,604	78,599,551	78,861,659	79,286,823	92,974,475
Long-term financial liabilities	-	-	-	-	-	-	-	-
Net income/(loss)	(289,758)	(340,108)	(234,660)	838,482	(370,184)	(4,026,247)	(241,140)	508,834
Net income/(loss) per common share basic and diluted	(0.00)	(0.00)	(0.00)	0.01	(0.00)	(0.05)	(0.00)	0.00

(1) Presented in accordance with CAGAAP

Total assets fluctuated only slightly over the past eight quarters (excluding changes related to the adoption of IFRS), with movements generally attributable to effects of net income or loss (excluding non-cash charges) and to fluctuations in working capital. During Q4, 2010, the Company purchased certain royalty interests valued at \$616,000 by issuing common shares and recorded an oil and gas interest acquisition of \$616,000.

The Company's long term liabilities consist of asset retirement obligations. There are no long term financial liabilities over the past eight quarters.

Net Income/(loss) has been generally consistent over the past eight quarters except as to large fluctuations in share-based compensation due to significant option grants in Q2, 2011. In Q4, 2011, the Company recognized a \$331,707 fair value adjustment to its investment in asset backed commercial paper ("MAV II notes") as a liquid market in the MAV II notes developed and moved higher during 2011. An adjustment to share-based compensation of \$819,137 (2010 - \$nil) occurred in Q4, 2011 resulting in a positive net income for that quarter.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Liquidity and Capital Resources

As at January 31, 2012, the Company had cash of \$1,116,030 (April 30, 2011 - \$2,308,180) and accounts receivable and prepaids of \$64,105 (April 30, 2011 - \$77,184) available to cover the Company's current liabilities of \$90,925 (April 30, 2011 - \$1,492,799). As at January 31, 2012, the Company had positive working capital of \$1,089,210 compared to positive working capital of \$892,565 as at April 30, 2011. As at the date of this MD&A, the Company has a positive working capital of approximately \$960,000. During the nine months ended January 31, 2012, the Company sold its MAV II notes market value of \$1,199,118 (face value \$1,708,118) and paid off its bank loan of \$1,376,126.

During the nine months ended January 31, 2012, the Company recorded interest income of \$12,763 (2010 - \$7,564) from its short-term investments. The Company funded its operating during 2012 to date mostly from its exiting working capital. The Company is dependent on the equity markets as its major source of future development and exploration activities.

The Company does not know of any trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present. The British Columbia Oil & Gas Commission (BCOGC) has implemented a new plug and abandonment bonding program wherein certain operators will have to post bonds in addition to those previously posted. The Company is currently in discussions with the BCOGC regarding this. Although the Company is not the operator of the CBM project and believes that the net asset value of the CBM project should exempt it from any further bonding obligation, it is possible the Company will be required to post additional bond. Material increases or decreases in liquidity are substantially determined by the success or failure of the development and exploration programs and by the company's access to suitable financing.

Operating Cash Flow

Net cash used in operating activities during the three months ended January 31, 2012, was \$243,678 compared to net cash used in operating activities of \$315,604 during the three months ended January 31, 2011. Net cash used in operating activities during the nine months ended January 31, 2012, was \$763,276 compared to net cash used in operating activities of \$872,552 during the nine months ended January 31, 2011.

Financing Activities

During the three and nine months ended January 31, 2012, the Company paid off its bank loan of \$1,376,126. There were no financial activities during the three months ended January 31, 2011. Financing activities required cash of \$165,108 during the nine months ended January 31, 2011.

Investing Activities

The Company invested cash of \$29,150 during the three months ended January 31, 2012 for oil and gas interests, compared to \$359,360 invested during three months ended January 31, 2011. The Company invested cash of \$251,936 during the nine months ended January 31, 2012 for oil and gas interests, compared to \$2,588,769 invested during nine months ended January 31, 2011. This significant decrease in the Company's investing activities during nine months ended January 31, 2012 was due mainly to lower lease acquisitions.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Outstanding Share Data

As at the date of this MD&A, there were 82,255,784 common shares and 6,857,500 stock options outstanding.

In May 2009 the Company received approval from TSX Venture Exchange (the "Exchange") to repurchase up to 5% of its common shares, over the year to May 2010. On June 4, 2010, the Company received approval from the Exchange to commence a new normal course issuer bid (the "Bid") to purchase up to 4,121,664 (5%) of its common shares issued and outstanding as at May 28, 2010. The Bid ended on June 3, 2011. A total of 291,500 shares were acquired from the market in 2011 at a total cost of \$165,108. The price paid by the Company for any acquired shares was the market price at the time of acquisition. All shares purchased under the Bid were cancelled. Funding for the Bid was from the Company's working capital.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

During the three months ended January 31, 2012, \$66,000 (2011 – \$72,225) was paid to J. Proust & Associates Inc., a private company controlled by a director of the Company for management, administrative and accounting services rendered. The Company also paid \$66,208 (2011 – \$65,344) to Petra CBM Ventures Inc., a private company controlled by the CEO and the president of the company for management and administrative services rendered.

During the nine months ended January 31, 2012, the Company paid \$195,300 (2011 – \$216,475) to J. Proust & Associates Inc. for management, administrative and accounting services rendered and paid \$215,860 (2011 – \$165,273) to Petra CBM Ventures Inc., for management and administrative services rendered.

Share-based compensation of \$3,429,424 was recorded for share option granted to key management personnel during the nine months ended January 31, 2011. No share based compensation expenses was recorded during the nine months ended January 31, 2012.

As at January 31, 2012, accounts receivable, prepaids, and deposits included \$18,480 (January, 2011 - \$18,848) of advances made to a private company controlled by a Director of the Company.

The CEO (a Director) of the Company was the original geologist that staked certain leases comprising the Peace River Project, Monias and Moberly prospects in which the Company acquired interests. The Company's working interest in these lands is subject to overriding royalty interests, which range from 0.775% to 1%, payable to the CEO. These overriding royalty interests were created prior to the CEO's affiliation with the Company.

The related party transactions incurred during the period were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed by the related parties.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Contractual Commitments

a) The Company has committed to rent office space for the following annual amounts:

Location	Commencement Date	Term	\$/ month	Fiscal 2012
Vancouver, BC	March 1, 2010	December 31, 2011	4,321	20,885
Baton Rouge, Louisiana	April 1, 2010	March 31, 2013*	US\$1,800	US\$10,800

**The office lease agreement can be terminated by Lessee after April 1, 2011, and before March 31, 2013, with 120 day written notification to Lessor.*

b) Mineral properties commitments are disclosed in Note 3 of the Company's condensed interim financial statements for the nine month period ended January 31, 2012.

c) Asset retirement obligations are disclosed in Note 4 of the Company's condensed interim financial statements for the nine month period ended January 31, 2012.

Financial Instruments

The nature of the Company's operations expose the Company to credit risk, liquidity risk, and market risk and foreign exchange risk and interest rates, which may have a material effect on cash flows, operations and comprehensive income.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies.

Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Receivables are amounts receivable from the Canadian federal government for the refundable HST/GST amounts. The credit risk on these amounts is minimal.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed only to the interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risk on the Company's cash is minimal. The Company is exposed to market risk as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Fair value

The fair value of the Company's financial instruments is approximated by their carrying value as at January 31, 2012, April 30, 2011, and May 1, 2010 due to their short term nature.

IFRS requires disclosure about fair market value measurements for financial instruments and liquidity risk using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Financial instruments measured at fair value on January 31, 2012 are summarized in levels of fair value hierarchy as follows:

January 31, 2012	Level 1	Level 2	Level 3
Assets			
Cash	\$ 1,116,030	\$ -	\$ -
Long-term investment	\$ -	\$ -	\$ -
Bank loan	\$ -	\$ -	\$ -

Foreign exchange risk

The Company incurs operating expenses and capital expenditures mostly in Canadian dollars. The Company's exposure to assets and liabilities denominated in foreign currencies is nominal. Accordingly, the Company does not have a significant exposure to losses arising from fluctuations in exchange rates.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and bank loans which bear a floating rate of interest. The risk is not considered significant.

Risk Factors

The Company's operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding exploration, additional financing, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, and regulatory requirements, environmental regulations risks. Exploration for gas and CBM resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess.

Substantial capital requirements

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development, and production of CBM reserves in the future. If the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Environmental risks

All phases of the gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of gas, water or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Water disposal

The coal beds from which CBM gas is produced frequently contain water that may hamper the Company's ability to produce gas in commercial quantities or affect the Company's profitability.

Unlike conventional natural gas production, coal beds frequently contain water that must be removed in order for the gas to desorb from the coal and flow to the well bore. The Company's ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not the Company can produce gas in commercial quantities. The cost of water disposal may affect the Company's profitability.

Where water produced from the Project fails to meet the quality requirements of applicable regulatory agencies or wells produce water in excess of the applicable volumetric permit limit, the Company may have to shut in wells, reduce drilling activities, or upgrade facilities. The costs to dispose of this produced water may increase if any of the following occur:

- the Company cannot obtain future permits from applicable regulatory agencies;
- water of lesser quality is produced;
- wells produce excess water; or
- new laws and regulations require water to be disposed of in a different manner.

Reliance on operators and key employees

The Company is not the operator on all of its prospects and may not be the operator of certain gas properties in which it acquires an interest. To the extent the Company is not the operator of its gas properties; the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. The operator may incur liability for liens related to its subcontractors. If subcontractors fail to timely pay for materials and services, the assets of the operator could be subject to materialmen's and workmen's liens. In that event, the operator could incur excess costs in discharging such liens.

In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Conflicts of interest

Certain of the directors and officers of the Company are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

officers and directors of the Company and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the Business Corporations Act.

Permits, licenses and government regulations

Governmental permits and approvals for drilling operations must be obtained for the Project, which can be a costly and time consuming process and result in restrictions on operations.

Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. For example, GeoMet as the operator of the Project will often be required to prepare and present to federal, provincial or local authorities data pertaining to the effect or impact that proposed exploration for or production of gas may have on the environment. Further, the public may comment on and otherwise engage in the permitting process, including through intervention in the courts. Accordingly, the permits that are needed may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements that restrict the ability to conduct the operations on the Project or to do so profitably.

Oil and gas exploration is subject to significant regulation. Changes in these regulations may have a material adverse impact on the Company's operations.

Title matters

Although title reviews on the Company's property interests will be done or have been done to the satisfaction of management of the Company, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the interests of the Company. Such defects in title could result in a reduction of the possible revenue to be received by the Company. In addition, the Company's properties which are held in the form of licences, leases and/or working interests in licences and leases may be adversely affected if the holder of the licence or lease fails to meet the specific requirements of a licence or lease. There can be no assurance that any of the obligations required to maintain such licences or leases will be met. The termination or expiration of such licences, leases or working interests in licences or leases may have a significant material adverse effect on the Company's results of operations and business.

Aboriginal land claims

Many lands in British Columbia are or could become subject to aboriginal lands claim to title, which could adversely affect the Company's title to its properties. While the Company actively consults with all groups which may be adversely affected by the Company's activities, including aboriginal groups, there can be no assurance that satisfactory agreements can be reached.

Additional funding requirements

Since the production at the Peace River Project is in its early stage, the Company is still dependant on the equity markets as its major source of operating working capital. From time to time, the Company may require additional financing in order to carry out its acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. There can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favorable terms.

Company not the operator of the Peace River, Moberly and Deep Rights on Monias Projects

The Company is not the operator of the Projects and will have limited or no control over the Projects. More specifically, the Company will have limited or no control over the following: the timing of the drilling and recompleting of wells; the timing and amounts of production; and the development and operating costs.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Issuance of debt

From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The Company's Articles do not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of drilling equipment and access restrictions

CBM exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

Critical Accounting Policies

Reference should be made to the Company's significant accounting policies contained in Note 2 of the Company's condensed interim financial statements as at January 31, 2012 and the April 30, 2011 and 2010 audited financial statements. These accounting policies can have a significant impact of the financial performance and financial position of the Company.

Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") has replaced Canadian generally accepted accounting principles ("CAGAAP") with International Financial Reporting Standards ("IFRS") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011.

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") and IFRS 1 First-time adoption of IFRS using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first IFRS condensed interim financial statements for part of the period covered by the first IFRS annual financial statements to be presented in accordance with IFRS for the year ending April 30, 2012.

Previously, the Company prepared its annual and interim financial statements in accordance with CAGAAP.

As these are the Company's first condensed interim financial statements prepared in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's April 30, 2011 annual financial statements prepared in accordance with CAGAAP. In fiscal 2013 and beyond, the Company may not provide the same amount of disclosure in the Company's condensed interim financial statements under IFRS as the reader will be able to refer to the annual financial statements which will be prepared in accordance with IFRS.

Basis of preparation

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These condensed interim financial statements are of the company as an individual entity.

These condensed interim financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are expected to be effective or available on April 30, 2012, the

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Company's first IFRS annual reporting date.

The standards that will be effective or available for voluntary early adoptions in the annual financial statements for the year ending April 30, 2012 are subject to change and may be affected by additional interpretation(s). Accordingly, the accounting policies for the annual period that are relevant to these condensed interim financial statements will be determined only when the first IFRS financial statements are prepared for the year ending April 30, 2012.

The preparation of these condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under CAGAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They also have been applied in preparing an opening IFRS statement of financial position at May 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from CAGAAP to IFRS is explained in Note 12.

Significant accounting judgments and estimates

The preparation of these condensed interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future period.

Fair value of oil and gas properties, depletion and depreciation and amount used in impairment calculations are based on estimated of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future period could be material.

The estimated fair value of the Company's financial assets and liabilities are by their nature, subject to measurement uncertainty.

The calculation of income taxes requires judgement in applying tax laws and regulations, estimating the timing of the reversal of temporary differences, and estimating the realizability of future tax assets. These estimates impact current and future income tax assets and liabilities, and current and future income tax expenses (recovery).

The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of stock options. These estimates impact share-based compensation expense and share-based payment reserve.

Oil and gas interests

All costs directly associated with oil and gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include costs to acquire acreage and exploration rights, geological and geophysical costs, asset retirement costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as exploration and evaluation expense.

When an area is determined to be technically feasible and commercially viable through the granting of a mining permit, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decided not to continue with its activity, the unrecoverable costs are charged to net earnings as exploration and evaluation expenses.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Impairment of non-financial assets

Impairment tests for non-financial assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the non-financial asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the non-financial asset to its recoverable amount.

Joint operations

Substantially all of the oil and gas activities of the Company are conducted jointly with others, and these condensed interim financial statements reflect only the Company's proportionate interest in such activities.

Asset retirement obligations

Asset retirement obligations include present obligations where the Company will be required to retire tangible non-financial assets such as producing well sites and facilities. The asset retirement obligations are measured at the present value of the expenditure expected to be incurred using a risk-free discount rate. The associated asset retirement obligation is capitalized as part of the cost of the related non-financial. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the asset retirement obligation and the related decommissioning cost.

Increase in asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligations in the statement of income. Actual expenditures incurred are charged against the asset retirement obligation liability as incurred.

Income taxes

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Corporation does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Share-based payment transaction

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value for employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured based on the price specified in the sales contract.

Loss per share

The Company presents basic per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In years when a loss is incurred, potential issuance of shares would be anti-dilutive and therefore, basic and diluted loss per share are the same.

Flow-through shares

Resources expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The increase to share capital when flow-through shares are issued is measured based on the current market price of the Company's common shares. The incremental proceeds are recorded as a liability. When the qualifying expenditures are incurred and renunciation of the tax benefits to the investors has occurred, or is likely to occur, a credit to future income tax expense is recognized.

Foreign currency transactions

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Revenues and expenses are translated into Canadian dollars at the exchange rate in effect on the transaction date. Foreign exchange gains and losses are included in earnings.

Financial instruments

On initial recognition, all financial assets and financial liabilities are recorded at fair value plus directly attributable transaction costs, other than financial assets and liabilities classified as at fair value through profit or loss. The directly attributable transaction costs of financial assets and liabilities classified as at fair value through profit or loss are expensed in the period they are incurred.

Subsequent measurement

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss. Cash is classified as fair value through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

objective evidence is received that a specific counterparty will default. Accounts receivable are classified as loans and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities: This category includes amounts due to related parties and accounts payables, accrued liabilities, and bank loan all of which are recognized at amortized cost at the settlement date using the effective interest method of amortization.

New accounting standards and recent pronouncements

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after January 1, 2013. These include:

- IFRS 7 (amendments) – Financial instruments – Disclosures
- IFRS 9 – Financial Instruments: Classification and Measurement
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangement
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Transition to International Financial Reporting Standards

As stated in Note 2 of the January 31, 2012 condensed interim financial statements of the Company, these financial statements are the Company's first condensed interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied as follows:

- in preparing the condensed interim financial statements for the three and nine months ended January 31, 2012;
- the comparative information for the three and nine months ended January 31, 2011;
- the statement of financial position as at April 30, 2011; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, May 1, 2010.

In preparing the opening IFRS statement of financial position, comparative information for the three and nine months ended January 31, 2011 and the financial statements for the year ended April 30, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with CAGAAP.

An explanation of how the transition from CAGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following table.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. In preparing these financial statements, the Company has elected to apply the following transitional arrangements:

(a) IFRS 2 – Share-based payment transactions

IFRS 2 *Share-based Payment* has not been applied to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before May 1, 2010.

IFRS 2, similar to CAGAAP, requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, under IFRS 2, the recognition of such expense must be done with a "graded vesting" methodology as opposed to the straight-line vesting method allowed under CAGAAP. In addition, under IFRS, forfeitures estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods; while under CAGAAP, forfeitures of awards are recognized as they occur. There is no adjustment required to the May 1, 2010's statement of financial position on the Transition Date.

(b) Reclassification within equity section

IFRS requires an entity to present for each component of equity, reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its "contributed surplus" account and concluded that as at the Transition Date, the entire amount of \$5,422,838(as at January 31, 2011 - \$9,265,147) relates to "share-based payment reserve". As a result, the Company believes that a reclassification would be necessary in the equity section between "Contributed surplus" and the "Share-based payment reserve" account.

(c) Exploration and evaluation assets

Under CAGAAP, the Company followed the full cost method of accounting for its oil and gas properties, whereby all costs relating to the acquisition, exploration and development of oil and gas properties are capitalized in one cost centre.

Under IFRS, pre-exploration, exploration and evaluation and development and production expenditures are accounted for separately. The Company utilized the IFRS 1 deemed cost exemption that allowed the Company to measure its exploration and evaluation and development and production assets at the amount determined under CAGAAP.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Financial Statement Impact of Transition to IFRS

IFRS employs a conceptual framework that is similar to CAGAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows of the Company, it resulted in changes to the Company's Balance Sheet, and Statement of Comprehensive Loss as set out below.

(d) Deferred incomes taxes

Conversion to IFRS affects deferred tax balances due to the initial recognition exemption for asset acquisitions and the calculation of temporary base differences on non-monetary items.

Initial recognition exemption

Under CAGAAP, the Company, on acquisition recognized an accumulated deferred income tax liability amounting to \$10,947,818, based on the difference between the accounting and tax basis of the oil and gas interest. Under IFRS, as the acquisition did not arise from a business combination or at the time of the transaction, affect accounting or taxable income, a deferred tax liability, for the initial temporary difference is prohibited from being recognized.

The effect of the IFRS differences for deferred income tax calculations on the transitional – April 30, 2011, January 31, 2011 and May 1, 2010, and financial statements is as follows:

Impact on Balance Sheets	April 30, 2011	January 31, 2011	May 1, 2010
	\$	\$	\$
Oil and gas interest	(13,631,928)	(13,631,928)	(13,631,928)
Future income taxes liability	10,947,818	11,906,968	11,906,968
Deficit	2,684,110	1,724,960	1,724,960

Impact on Statements of Comprehensive Loss	April 30, 2011	January 31, 2011
	\$	\$
Future income taxes recovered	959,150	No Impact
Comprehensive loss	959,150	No Impact

(e) Flow-through shares

The treatment of the tax effect of flow-through shares differs under CAGAAP and IFRS.

Under CAGAAP, share capital is credited with the net proceeds of the financing with no amount allocated to the sale of tax benefits. Upon renunciation of the exploration expenditures to investors for tax purposes, a future income tax liability is recorded in the amount of the estimated future tax savings given up and the offset is charged to share capital.

Under IFRS there is no direct guidance on this issue. Acceptable accounting under the IFRS framework would require an allocation of the flow-through share purchase price between the shares acquired and the tax benefit. The Company has adopted a policy, for these transactions, that allocates the market value of the shares to the flow-through shares and any premium over the market value to the tax benefit purchased. The Tax benefit amount is recorded as a liability at the time of the financing. In future periods, when the exploration expenditures have been made that qualify the transfer of tax benefits and renunciation of the benefit to the investor has been filed or is likely to be filed, the liability is settled and an offset is recorded to deferred income tax expense. At the time of the exploration expenditure, as the Company's policy is to capitalize exploration expenditures, a deferred tax liability will be created as the expenditures will have no tax basis.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

As there is no exemption under IFRS for retrospective application of this difference, the effect of flow-through share financings from inception on the transitional – April 30, 2011, January 31, 2011 and May 1, 2010 financial statements is as follows:

Impact on Balance Sheets	April 30, 2011	January 31, 2011	May 1, 2010
	\$	\$	\$
Share capital	(2,469,811)	(2,469,811)	(2,469,811)
Deficit	2,469,811	2,469,811	2,469,811

Impact on Statements of Comprehensive Loss	April 30, 2011	January 31, 2011
	\$	\$
Comprehensive loss	No Impact	No Impact

(f) Asset retirement obligation (“ARO”)

The Company recognized an ARO, which met the recognition criteria of both IFRS and CAGAAP. However, a difference exists between IFRS and Canadian GAAP in the discount rate used to calculate present value. Under both methods, present value should be used where the effect of the time value of money is material. Under IFRS, the Company would use a risk-free rate of 3.92% to calculate present value; however, under CAGAAP, the Company used a credit adjusted risk free-rate of 8.00%.

The effect of the IFRS differences for ARO on the transitional – April 30, 2011, January 31, 2011 and May 1, 2010 financial statements is as follows:

Impact on Balance Sheets	April 30, 2011	January 31, 2011	May 1, 2010
	\$	\$	\$
Oil and gas interests	290,544	280,808	(280,808)
Asset retirement obligation	(299,853)	(290,047)	(289,843)
Deficit	9,309	9,239	9,035

Impact on Statements of Comprehensive Loss	April 30, 2011	January 31, 2011
	\$	\$
Comprehensive loss	273	204

Investor Relations Activities

Mr. John Proust, a Director of the Company, coordinates investor relations activities.

Change in Directors and Management

Eduard Epshtein resigned as CFO effective July 14, 2011. John Proust has been appointed as interim CFO until a permanent CFO can be found.

Additional Information and Continuous Disclosure

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR www.sedar.com and on the Company's website at www.canadaenergypartners.com.

CANADA ENERGY PARTNERS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2012

Cautionary Note Regarding Forward-Looking Statements

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates", "plans", "budget", "scheduled", "continue", "estimates", "forecasts", "expect", "is expected", "project", "propose", "potential", "targeting", "intends", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur" or "be achieved" or the negative connotation thereof. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by readers, as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company and its joint venture partners on its properties and work plans to be conducted. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving well permits in British Columbia;
- the impact of increasing competition in the shale gas business;
- unpredictable changes to the market prices for natural gas;
- exploration and developments costs for its properties;
- availability of additional financing or joint-venture partners;
- anticipated results of exploration and development activities; and
- the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A: volatility in the market price for natural gas; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in natural gas extraction operations; unanticipated reclamation expenses; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; title disputes or claims; limitations on insurance coverage; lack of availability of additional financing and/or joint venture partners and unpredictable weather conditions. Although Canada Energy has attempted to identify important factors that could cause results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Forward looking statements are made as of the date hereof and accordingly are subject to change after such date. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.